

VZCZCXRO1721
PP RUEHC RUEHSD
DE RUEHTV #2760/01 3450810
ZNY SSSSS ZZH ZUI ZDK RUEHZC SVC 4078
P 100810Z DEC 08
FM AMEMBASSY TEL AVIV
TO RUEHC/SECSTATE WASHDC PRIORITY 9530
INFO RUCNIRA/IRAN COLLECTIVE PRIORITY
RUEHAD/AMEMBASSY ABU DHABI PRIORITY 4716
RUEHTH/AMEMBASSY ATHENS PRIORITY 0552
RUEHRL/AMEMBASSY BERLIN PRIORITY 0461
RUEHRO/AMEMBASSY ROME PRIORITY 6800
RUEHDIA/AMCONSUL DUBAI PRIORITY 0096
RUEHJM/AMCONSUL JERUSALEM PRIORITY 0970
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

S E C R E T SECTION 01 OF 04 TEL AVIV 002760

SIPDIS

TREASURY FOR LEVEY, S.
ATHENS FOR PURCELL, A.

E.O. 12958: DECL: 12/10/2018
TAGS: [KTFN](#) [EFIN](#) [ECON](#) [KWBG](#) [IR](#) [IS](#)
SUBJECT: U/S LEVEY REASSURES GOI THAT NO MOMENTUM WILL BE
LOST IN THE FIGHT AGAINST TERROR FINANCE

Classified By: A/DCM Marc Sievers for reasons 1.4 (b) and (d)

SUMMARY

1.(S) In a visit to Israel on 16-17 November, Treasury Under Secretary for Terrorism and Financial Intelligence, Stuart A. Levey, reassured GOI officials that no momentum would be lost in USG efforts to combat terrorist financing or to pressure Iran during the transition to a new US administration in January. In meetings with Foreign Minister Tzipi Livni, Mossad Director Meir Dagan, National Security Council Chairman Dani Arditi, and others, U/S Levey emphasized recent U.S. designations against the Union of Good, the Islamic Republic of Iran Shipping Lines (IRISL), and the recent revocation of Iran's "U-Turn" license. In response to GOI officials' pressure to have the U.S. designate the Central Bank of Iran (CBI), Levey underscored the importance of international, multilateral concurrence for such an effort to be a success.

2.(S) Israeli officials were keen to outline an "escalation" in CBI programs that they believed pose a danger to the international financial system. Several key Israeli officials identified Reza Raei, Vice Governor of the CBI, as a key figure in masterminding new ways to help the Iranian commercial and banking sectors circumvent sanctions. Levey promised to continue pushing the Gulf states on adopting stronger regulation until the last day of his appointment.

3.(S) Mossad Chief Meir Dagan informed Levey that sanctions were beginning to have a negative effect on Iran's regime. NSC Chairman Arditi also told him that the PA was performing well in its renewed fight against terror finance in the West Bank. END SUMMARY.

GOI CONCERNED ABOUT COUNTER TERROR FINANCE POLICY CONTINUITY

4.(S) National Security Council (NCS) Chairman, Dani Arditi, in a November 16 meeting with U/S Stuart Levey, asked whether Levey thought his efforts would continue into the next U.S. administration. Even though he said he planned to resign as required in January, Levey told Arditi that he believed the Obama team would be committed to continuing the ambitious program against terrorism finance that he has shepherded over the last several years. Saying counter- terrorism finance was not a partisan issue in the U.S., Levey subsequently

confirmed these sentiments to Foreign Minister (FM) Tzipi Livni and Mossad Director Meir Dagan in separate meetings that occurred on the following day, November 17.

IRAN/NON-PROLIFERATION

5.(S) On November 16, Levey outlined for Ministry of Foreign Affairs Deputy Director General for Strategic Affairs Alon Bar, and Senior Deputy Director General Yossi Gal positive developments in the Iran effort. He told them that Treasury had been very successful in curtailing business with Iran by most "major players". Levey said that expanding the non-proliferation strategy into insurance, and putting pressure on Iran's oil refining capacity and Liquid Natural Gas (LNG) industry were next steps being pursued. He also reported that the recent IRISL designation has been unusually effective.

CBI's Reza Raei Masterminds New Methods

6.(S) During their November 16 meeting, Arditi told Levey that the Israeli intelligence community has continued to see an escalation in CBI efforts to help designated Iranian commercial banks circumvent international and U.S. sanctions. The NSC Chairman presented several recent examples of CBI behavior that he characterized as unusual for a central bank. Arditi identified Reza Raei, Vice Governor of the CBI for Foreign Exchange Affairs, as the mastermind of these new

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efforts.

7.(S) Meir Dagan subsequently told Levey that the CBI had engineered a way for the UN-designated Iranian bank Sepah to conduct foreign business transactions through use of the Iranian Postal Bank. Bank Melli, a USG-designated bank, had also purchased shares in investment funds as a way to escape the effects of the sanctions, according to Dagan. Using these methods, Melli and Sepah have been able to fabricate a method of providing correspondent-like banking services to designated Iranian banks that find it increasingly difficult to deal in foreign currency. Arditi named the "Persia Equity Fund" as one such financial instrument being used by Melli. Levey commented that any such investment fund or financial instrument could be listed as a derivative designation of Melli if enough evidence could be shown linking the two organizations. Levey told Meir Dagan that he was in favor of pursuing a designation of Raei if GOI allegations were accurate.

No International Support for Designation of the CBI

8.(S) Arditi and subsequently, Dagan, asked Levey whether the USG was considering a designation of the CBI. Although Treasury had looked into the possibility, said Levey, a designation of the CBI would be ineffective without a multilateral effort. International support for such an effort simply did not yet exist, Levey explained. He told Dagan that we need to build support by sharing info about the CBI's illicit conduct, similar to the support we built for cutting off the U-turn license. Levey said that it would be better to focus on limiting other central and commercial banks' business with the CBI. Noting that the banking industry relies heavily on reputation, Levey told Arditi that the right strategy is to continue exposing the illicit activities of Iranian banks and banking officials.

European Banks' Business with Iran

9.(S) MFA interlocutors revisited the progress of European banks in non-proliferation efforts. In a November 16 meeting

with Yossi Gal, Senior Deputy Director General, and Alon Bar, Deputy Director General for Strategic Affairs, Gal raised concerns that Italy and Germany were falling short in their commitment to enforce sanctions within their banking sectors. Gal told Levey that the MFA was planning a visit to Italy in December, but was unsure whether its attempt to persuade the politicians would filter down to action within the bureaucracy. Gal expressed the same concern about the banking sector in Germany, saying that resistance from the bureaucracy and the private sector often undermined attempts by political figures to improve German regulation. Bar and Gal encouraged Levey to join the GOI in pressing the governments and banking sectors of Germany and Italy to do more.

Cautious Optimism on Gulf States

10.(S) On the status of UAE efforts to stem Iranian finance, Levey told Gal and Bar that he was optimistic about the country's efforts. Among other examples, he mentioned that the UAE had decreased the number of visas it was issuing to Iranian nationals and that Emirati ministers were receptive to his requests for increased banking regulation.

11.(S) FM Livni told Levey that Israel continues to encourage the Gulf states to more publicly outline their actions against Iranian finance within their banking sectors despite the countries' reasons for keeping such actions secretive. She asked Levey to join in this effort. Levey affirmed that the USG was encouraging sanctions in all sectors and posited that the Iranians were beginning to feel the pressure. Livni asked if the declining price of oil was becoming leverage in the efforts to thwart Iranian financial efforts. Levey said that it was and that the Iranian private sector was becoming more vocal in its criticisms of the government.

12.(S) Levey outlined for his GOI interlocutors recent

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efforts by Treasury to broaden its sanctioning of Iran to the shipping, insurance, and reinsurance industries. He cited the designation of IRISL as a positive first step and mentioned that Treasury had found willing partners in Europe and the UK to further efforts in this area.

Effect of Sanctions on Iran

13.(S) Dagan told Levey that the economic problems Iran is experiencing as a result of sanctions are encouraging debate within the regime. He said that in order to preserve the revolution, some key figures have begun to consider the need for change. The pressure is on, Dagan said, but he could not estimate when Iran would hit the brink. He noted that the lower cost of oil at the moment would likely prompt Iran to increase its production, thereby encouraging more business through the CBI. With oil prices low everywhere, however, Dagan and Levey agreed that Iran was a less attractive place for investment. Levey told Dagan that the present low oil prices provide a critical opportunity to convince other members of the international community to apply more pressure.

14.(S) Livni asked Levey if there was a risk of Iran regaining a foothold in certain markets as a result of the world financial crisis. Levey said that the market turmoil has worked to the USG's advantage: the crisis has made financial institutions even more risk-averse, thereby lessening Iran's attractiveness even further. Additionally, while Iran's banks are isolated, its economy is not.

U.S. Engagement with Iran

15.(S) FM Livni asked Levey during their November 17 meeting

why the USG was considering a rapprochement with Iran through a U.S. Interests section in Tehran. She questioned whether the tactic would have a net positive outcome when measured against the negative perceptions such a move would be bound to create. Levey told Livni that this was a question better posed to the State Department, but that her concern was the central issue being debated by policy makers in Washington. In Levey's previous meeting with MFA officials Bar and Gal, he said that engagement with Iran would not work without leverage, indicating that sanctions would need to be in place no matter what the USG decides to do.

STEMMING PALESTINIAN TERROR FINANCE: GOI PLEASED WITH PA'S
PROGRESS

16.(S) Levey told Arditi that Treasury's recent designation of the "Union of Good" was proof of the USG's commitment to continue to work against Hamas and Palestinian terrorists. Levey said, however, that while the USG supported efforts at thwarting terrorism in the territories, the USG wished to keep humanitarian goods flowing to the needy within the population.

17.(S) Arditi told Levey that Palestinian Authority (PA) efforts at stemming terrorism within the territories were going quite well. He said the PA's positive efforts "surprised" his staff and that he "never thought" the PA would do so well. Levey said that Treasury coordinated with Prime Minister Fayyad on the Union of Good designation and was pleased to hear that PA efforts were held in high regard by the GOI.

18.(S) When Levey inquired about efforts to prevent correspondent banking relations in Gaza from being severed, Arditi said that the Postal Bank "was on the agenda". Arditi lamented that the services provided by the Postal Bank would not be as good because of its small size and limited capacity. He expressed his hope that the central bank governor would be able to delay the commercial banks' decision to end their relationship with the Palestinians until a permanent solution was ensured.

19.(S) This cable has been cleared by Under Secretary Stuart

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Levey.

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CUNNINGHAM